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USSR: Second Consecutive Good Grain Crop

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An Intelligence Assessment

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GI 87-10081
SOV 87-10068
November 1987

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An Intelligence Assessment

This paper was prepared by the Soviet Agricultural Assessments Team, Office of Global Issues; and Office of Soviet Analysis. Comments and queries are welcome and may be directed to the Chief, Strategic Resources Division, OGI,

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Key Judgments

Information available as of 2 November 1987 was used in this report.

In 1987 Moscow harvested a good grain crop for the second consecutive year. Our analysis indicates that the USSR produced some 210 million metric tons (MMT) of grain, about the same as last year's fourth-largest crop and 20 MMT above the average of the last 10 years. In a recent speech marking the 70th anniversary of the Bolshevik Revolution, General Secretary Gorbachev mentioned that this year's grain crop would exceed 210 MMT, but we believe there is only a small chance that the final figure will be much above that level. We also estimate that the production of forages—a major livestock feed component—reached an alltime high, providing the basis for continued growth in livestock production. As a result, we believe that total agricultural output for 1987 will come close to last year's record high.

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Even with a crop this size, Moscow probably will still need imports of at least 15 MMT to meet minimum domestic grain requirements during the 1987/88 marketing year (MY), which began 1 July. This estimate is somewhat higher than that suggested by the size of the grain crop because of poor grain quality in some regions due to wet weather at harvest time. There is also the possibility that extremely favorable grain prices will induce Moscow to expand already substantial stocks somewhat, pushing imports up as high as the 25-MMT range. Even so, total Soviet imports should still be below the roughly 30 MMT purchased in each of the last two MYs.

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The USSR's lowered grain import needs suggest that:

- The Soviet hard currency outlay for grain during the current MY could be as much as $1 billion below last year's estimated $2.5 billion.
- Moscow could, if it so chooses, satisfy most of its import requirements from non-US sources.
- The Soviets may reconsider their program of long-term grain purchasing agreements, seeking more flexible terms and demanding counterpurchases of Soviet goods.

With ample supplies of wheat available on the world market, Moscow will be in a strong position to wait for the best deal and is unlikely to purchase any US wheat unless the wheat has a substantial price subsidy. On the other hand, the United States should remain in a good competitive position to supply the major share of Soviet corn needs. The US corn crop is more reliable than that of other corn suppliers, and US corn prices are fully competitive. In addition, the United States has much greater supplies on hand for year-round export.

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Scope Note

This assessment provides our annual estimate of Soviet grain production, along with estimates for other major crops. In most years, harvest results by late-October give a very reliable basis for projecting final harvest figures. This year, the Soviets experienced poor weather during the harvest in a number of important agricultural regions, which slowed operations and reduced the quality of some harvested crops. These factors have introduced some additional uncertainty into our crop estimates and our judgments about Soviet grain import needs. 25X1

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Introduction

Overall agricultural output in the Soviet Union will probably come close to last year's record high. Continued growth in the livestock sector—which accounts for more than half of agricultural output—and a second consecutive good grain crop were the keys to this year's success. As the second year of the 12th Five-Year Plan (1986-90) comes to a close, General Secretary Gorbachev will be able to contrast the improved agricultural performance achieved during his first two years in power with the dismal record achieved during the first two years of the previous five-year plan.

Since assuming power, Gorbachev has assigned high priority to increasing food production and reducing the enormous losses and excessive costs that plague the agricultural sector. He is attempting to reduce interdepartmental rivalries largely through administrative measures. He has also issued several major decrees that are intended to give local authorities and farms more control over the disposition of surplus production and to make financial rewards for workers and farms more dependent on production results and efficient use of resources. Finally, he hopes to unleash individual initiative by creating a "proprietary attitude" on the part of farmworkers. Potential gains from these measures, however, will be constrained by traditional weaknesses in the agricultural sector—such as chronic shortages of agrochemicals and equipment, high product losses from an underdeveloped transportation system, and a food-processing industry that has been neglected for decades.

Nevertheless, the increasing attention given to the agricultural sector in recent years is having an effect. Largely through intensification programs aimed at improving the quality of agricultural inputs and at better coordinating their use, steady gains have been attained in the output of meat and dairy products along with certain field crops. These improvements have been especially dramatic in the production of grain.

Harvest Developments

This year's growing season was one of the most unusual on record. Pessimism this spring, raised by poor weather last fall and winter, gave way to much more upbeat projections as the season progressed.

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Good Grain Crop

Our analysis indicates that Moscow produced its second consecutive substantial grain crop.[1] The harvest would have been even larger except for early season poor weather and the smallest area sown to grain in 27 years. As a result, we estimate the 1987 Soviet grain crop at some 210 million metric tons (MMT)—about the same as last year's high output but almost 20 MMT above the average for the last 10 years (table 1).[2] In a recent speech marking the 70th anniversary of the Bolshevik Revolution, General Secretary Gorbachev mentioned that this year's grain crop would exceed 210 MMT but we believe there is only a small chance that the final official figure will be much above that level.

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The good harvest this year was primarily the result of generally good-to-excellent harvests in the European grain belt, which accounts for the majority of Soviet grain production (figure 1). For example:

- In the Ukraine—the breadbasket of the Soviet Union—press reports described the grain harvest as "quite good" and indicated that the total would exceed last year's 43 MMT—the highest level since the 1978 record year. Many northern and western oblasts reported above-plan production and delivery targets.

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- In the North Caucasus area, media reporting indicated that many quotas were met and overfulfilled.

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[2] The US Department of Agriculture currently forecasts the crop at 210 MMT, and estimates by other Western grain analysts range from 195 MMT to 215 MMT

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Table 1
USSR: Grain Production, 1977-87 [a]

Million metric tons

	1977-86 Annual Average	1982	1983	1984	1985	1986	1987 [b]
Total	**191.3**	**186.8**	**192.2**	**172.6**	**191.7**	**210.1**	**210.0**
By crop							
Wheat	88.7	84.3	77.5	68.6	78.1	92.3	82.0
Coarse [c]	91.9	91.8	101.9	90.5	100.0	106.0	114.0
Other [d]	10.7	10.7	12.8	13.5	13.6	11.8	14.0
By republic							
RSFSR	105.5	105.2	111.5	92.4	106.6	118.0	112.0
Ukraine	41.1	41.9	36.5	41.7	40.5	43.1	47.0
Kazakh S.S.R.	24.2	19.5	23.2	15.9	24.2	28.3	27.0
Other	20.5	20.2	21.0	22.6	20.4	20.7	24.0

[a] Measured in bunker weight, that is, gross output from the combine, which includes excess moisture, unripe and damaged kernels, weed seeds, and other trash. For comparison with US or other countries' grain output, an average discount of 11 percent should be applied.
[b] Estimated.
[c] Coarse grains comprise rye, barley, oats, corn, and millet.
[d] Other grains include pulses, buckwheat, and rice.

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- Imagery reveals that in Belorussia, the Central, and the Central Chernozem regions—areas that received abundant moisture and experienced almost ideal growing conditions—vegetation displayed excellent vigor. Harvesting was slowed by excess field moisture in many areas; but, according to media reporting, once the grain was gathered, numerous locales exceeded targeted procurement and yield levels.

In the eastern spring grain areas of the New Lands and in Siberia, crops got off to a good start, boosted by ample soil moisture. Parts of the New Lands experienced dryness during the summer months, but the desiccated areas did not reach the extent seen in other years. Recently completed analysis of northern Kazakh S.S.R. oblasts indicates that yields there were very good. In addition, the Central Asian republics experienced favorable weather this year, and their grain-producing areas—although not very extensive—reported some exceptional yields.

Downside Factors. We believe, however, that this year's grain crop will only approximate last year's harvest, primarily because of harsh weather the previous fall and winter. For example:

- A severe fall drought in the Ukraine and North Caucasus—major winter grain regions—damaged winter crops. Analysis of Landsat imagery indicates that winter grains in the southern and eastern Ukraine and in Rostov, Stavropol', and Krasnodar in the North Caucasus either did not emerge or emerged in very poor condition last fall. Moreover, weather data indicate that these areas averaged only about 60 percent of their normal precipitation between August and November—roughly the time from planting to the onset of dormancy. As a result,

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Soviet Grain Crop Estimates: Sources of Uncertainties

Our estimate of the Soviet grain crop reflects procedures we have applied successfully over the years. Nonetheless, there remain numerous uncertainties in our estimate. These uncertainties reflect, in particular:

- *Approximate statistical relationships describing Soviet grain yields.*
- *Recent improvements in Soviet farming practices.*

Because of these factors, our grain crop estimate of 210 MMT is subject to some error. On the basis of our analysis of all available information, however, we believe that there is only a 10-percent chance that the actual Soviet figure will differ from our best estimate of 210 MMT by more than 10 MMT.

winter grains entered dormancy with thin stands and greater vulnerability to further losses from cold winter temperatures.

- A harsh winter caused above-average winterkill. Normally, plant freezing, suffocation, or fall drought cause loss of about 18 percent of seeded winter grains. This year, however, such losses amounted to about 33 percent—one of the worst levels on record. Soviet press reports and weather data indicate that cycles of intense freezing and thawing caused severe frost heaving and ice crusting in parts of the Ukraine and North Caucasus during January. In other areas, however, ample snow cover protected winter crops.

As a result, our analysis indicates that winter grains—planted during the fall for harvest in early summer—totaled only about 56 MMT this year, sharply lower than last year's reported output of 65.9 MMT and below the 1982-86 average of 61.8 MMT. In addition, a very cool, late spring slowed the melting of winter snow and delayed spring grain sowing by two to three weeks in the southern half of the European USSR. There, late-planted crops (especially corn), which developed later than usual, were more vulnerable to summer heat and harvesttime frosts.

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Hot summer weather also depressed grain yields, but the losses were probably less severe than from bad weather earlier in the growing season:

- Analysis of weather data indicates a stint of hot, dry winds—known as a *sukhovey*— probably damaged grain crops in the eastern half of the Volga region and in western Orenburg oblast during mid-June. The damaged areas represent a relatively small portion of the total grain area, however, and production losses probably were small. In addition, early July rains broke the hot, dry spell and replenished soil moisture, thereby limiting further losses.

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- Persistent hot, dry weather over much of central and eastern Kazakh S.S.R. during most of August may have slightly affected spring grain yields. The impact of the unfavorable weather on the crop was reduced, however, as most plants had passed the critical flowering stage and were in the seed filling or ripening stage.

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- Analysis of Landsat imagery for August indicates that the 1987 corn crop—of particular interest as a livestock feed—was probably reduced because of persistent dryness when many plants were in the late flowering or early grain filling stage.

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Besides weather factors, a relatively smaller sown area also limited the size of the 1987 grain crop. This reduction in area was a result of delays in spring sowing and a policy of expansion of lands lying fallow.[3] On the basis of statistics released by the

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[3] A large segment of the cutback in grain area appears to be a consequence of Moscow's policy to expand the amount of arable land lying fallow. Fallowing tends to increase ground moisture reserves and provides some protection against damage from drought when fallowed land is brought back into production. Between 1977 and 1986, the harvested grain area of the USSR declined steadily from a record high of 130.3 million hectares to 116.5 million, while fallow increased from 12.4 million hectares to 21.7 million. During this period about 4.5 million hectares were taken out of both fallow and production and allocated to other uses, most likely to forage.

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Figure 1
Estimated Soviet Grain Yields, Mid-October 1987

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USSR's Central Statistical Administration in July, we believe the final harvested grain area totaled only about 116 million hectares, well below the 119.6 million hectares averaged during the past five years. Assuming average yields, such a decrease in area reduced potential grain production by some 5 MMT.

Complicating Issues. Although all the available evidence by late October indicated that the 1987 Soviet grain crop exceeded the 200-MMT level for only the fifth time on record, some questions remain regarding its final size. The uncertainties are due largely to unusually severe weather during the last phases of the harvest. This poor weather produced:

- Excessive rainfall in the northern Kazakh S.S.R. and in Siberia during September, which slowed the harvest. Combining operations were seriously hampered, and transport to storage facilities was slowed. Slightly more grain than usual was lost to frost and early snowfalls.

- Excessive moisture in the harvested grain, which hurt quality and rendered some of the crop unfit for human consumption. Much of the damaged grain will be used as animal feed.

Improved farming practices brought about by the Soviets' intensive technology program were important this year, as they had been in 1986, but the size of the impact is still difficult to measure with precision. The program is aimed at boosting average yields by about 1 ton per hectare on more fertile lands primarily in the RSFSR, the Ukraine, and the Kazakh S.S.R. In support of intensive technology, imports of Western herbicides, fungicides, and insecticides—along with phosphate fertilizers—have been substantially higher in the 1980s than in the 1970s, according to published figures Moreover, the program was expanded this year by almost 20 percent, to 35.3 million hectares, and plans were for the program to contribute an extra 30 MMT to this year's harvest. Because the weather was favorable over most intensive technology areas this season, we believe the Soviets are likely to come close to their stated goal, and our grain crop estimate of 210 MMT includes a contribution of about 28 MMT which we attribute to the use of intensive technology.

The Soviet "Intensive Technology" Effort

The 1987 crop season saw the USSR continue to expand its massive intensive technology program in grain production. According to Soviet economists, the effort grew out of Soviet frustration that agricultural production during 1971-85 grew by about 15 percent, despite a more than doubling of investments in the sector. Intensive technology, as defined by the Soviets, includes many farm management practices routinely performed in the West. These include using high-yield seed varieties, planting after fallow, implementing efficient field operations and transportation routes and schedules, and using agrochemicals more extensively. The program commenced in 1984 on 20,000 hectares of selected test sites scattered over the Soviet Union. The impressive results of these trials encouraged Soviet planners to dramatically increase the intensive technology area to about 30 million hectares by 1986. In 1987 the area was expanded to 35.3 million hectares, and plans call for the program to encompass 50 million hectares by 1990.

Other Agricultural Crops

Large amounts of rainfall over many parts of the Soviet Union during late summer and fall hurt many of the nongrain (industrial) crops. The abundant moisture, however, boosted the growth of forage grasses.

Nongrain Crops. Harvests of the major nongrain crops—sunflowers, sugar beets, potatoes, vegetables, and cotton—were generally below the levels reached last year. Output for all of the products will be disappointing except for cotton, which should be better than last year's drought-and-disease-plagued crop (table 2):

- *Sunflower* production fell slightly below last year's good crop of 5.3 MMT. We estimate the 1987 sunflower harvest at 5.1 MMT, equal to the average

Table 2
USSR: Nongrain Crops

	Area [a] (*million hectares*)	Yield (*quintals per hectare*)	Production (*million metric tons*)
Sunflowers			
1982-86 [b]	4.1	12.5	5.1
1985	4.1	12.9	5.2
1986	3.8	13.6	5.3
1987	3.9	13.0 [c]	5.1 [c]
Sugar beets			
1982-86 [b]	3.4	231.0	80.0
1985	3.4	241.0	82.1
1986	3.4	233.0	79.3
1987	3.4	230.0 [c]	78.0 [c]
Vegetables			
1982-86 [b]	1.8	163.0	29.8
1985	1.8	157.0	28.1
1986	1.7	164.0	29.7
1987	1.8	160.0 [c]	29.0 [c]
Potatoes			
1982-86 [b]	6.7	122.0	81.4
1985	6.5	113.0	73.0
1986	6.4	137.0	87.2
1987	6.4	120.0 [c]	77.0 [c]
Cotton			
1982-86 [b]	3.3	25.2	8.3
1985	3.3	26.4	8.8
1986	3.5	23.7	8.2
1987	3.5	25.0 [c]	8.7 [c]

[a] Area figures are derived from production and yield values published in *Tsifrakh*, 1986; and *Vestnik statistiki*, No. 4, 1987.
[b] Annual average.
[c] Production estimates are obtained by regression equations that take into account weather effects on a regional basis, and a trend term indicative of increased technological inputs over the years. Estimates have an error of about ±5 percent.

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of the last five years. Dryness in parts of the southern Ukraine and along the Volga Valley—areas that account for about one-third of production—reduced output somewhat.

- We estimate *sugar beet* production this year was about 78 MMT, 1 MMT below 1986 and some 2 MMT below the last five-year average. Late spring planting of sugar beets, along with excessive late summer and early fall moisture in parts of Belorussia, the northern Ukraine, and the Central Chernozem region delayed crop maturity, reduced beet size, and hindered harvesting in some areas.

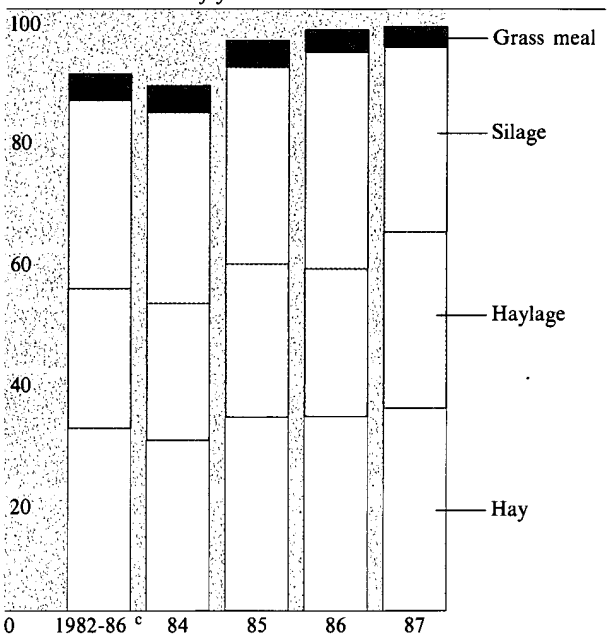
- A delayed spring and rainy weather are also responsible for the likely drop of almost 1 MMT in Soviet *vegetable* production this year, compared with the roughly 30 MMT produced both in 1986 and over the last five-year period. According to official press reports, Soviet citizens are having difficulty obtaining fresh vegetables, and the government has been forced to import these foodstuffs from some of its East European allies.

- Wet conditions in Belorussia and the Baltic republics—major *potato* growing areas—during August and September led to widespread fungal diseases in tubers. We estimate that these conditions lowered the 1987 crop by about 10 MMT from last year's good crop of 87.2 MMT.

- The only bright spot among major nongrain Soviet crops appears to be *cotton*, which this year generally experienced favorable growing conditions. Despite recent readjustment of official Soviet figures due to overstatement of cotton production in the Uzbek S.S.R. for the years 1976-84, we believe reported figures of 1985 and 1986 are accurate and can be used to help project this year's crop. Cotton production probably reached about 8.7 MMT this year, up 500,000 tons from 1986. [redacted]

Forages. In addition to a relatively good grain crop, production of several major forage crops probably came close to record levels. Central Statistical Administration data indicate that, as of 14 September (the last date of complete reporting), the harvest of major forage crops (hay, haylage, silage, and grass meal) was running 2 percent ahead of last year—the previous high for that date, when measured in terms of overall nutrient content (figure 3).[4] Because harvested forage in the Soviet Union makes up slightly more than one-half of the nutrient content of harvested livestock feed, the outlook for feed supplies into next year is very good. [redacted] 25X1 25X1

Figure 3
USSR: Harvested Forages, 1982-87 [a]



[a] As of 14 September of stated year. This is the date of last complete data reported for 1987.
[b] A 1-kg feed unit contains nutrient value equivalent to 1 kg of oats.
[c] Annual average.

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[4] As of mid-October, incomplete data indicate that the harvest of hay, haylage, and silage—the three major forage crops—was 6 percent above the previous high reported for that date. [redacted] 25X1

With such an abundant forage crop, Moscow should be able to achieve the 1987 targets for meat, milk, and egg production. Soviet statistics show that, as of September, meat production on state and collective farms—which produce nearly three-fourths of all Soviet meat—was running 6 percent ahead of 1986, even though the number of animals is relatively unchanged. Milk and egg production were also up by 2 and 3 percent, respectively. Thus, Gorbachev's push to increase animal productivity—more meat per animal and milk per cow—through improving feed rations and livestock management apparently is having a positive effect.

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Soviet Grain Import Requirements

The Need for Grain

The early successes of Gorbachev's initiatives in the agricultural sector have introduced new uncertainties into our estimates of the USSR's need for grain and, consequently, for grain imports. As a result, Soviet imports this marketing year (MY) could range from about 15 MMT up to around 25 MMT. The need for imported grain in the past was largely driven by the regime's promises of improved diets—particularly of more meat—for consumers. The linkage between quantities of grain fed to livestock and of meat and milk produced was fairly constant. Grain needs for seed and other uses were also stable. Now, however, all of these factors are slowly changing.

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Even with another substantial grain harvest, Soviet import needs are still likely to be at least 15 MMT—about half the roughly 30 MMT purchased in each of the previous two MYs (figure 4). The biggest reduction in demand for grain resulted from better livestock feed management. Under Gorbachev's leadership, Soviet farmers have been encouraged to increase forage production as part of a larger campaign to increase the amount of overall feed per animal, while reducing the share of grain in feed rations. With the continuing shift to a more efficient feed composition that another large forage harvest will support, Soviet grain imports needed to meet livestock production targets could even be reduced by as much as 2 to 3 MMT below our estimate. In addition, if Moscow continues to restructure livestock herds in favor of animals, such as cattle, that are not heavy grain consumers, the demand for imported grain will fall even more, although this downward trend will be a slow one.

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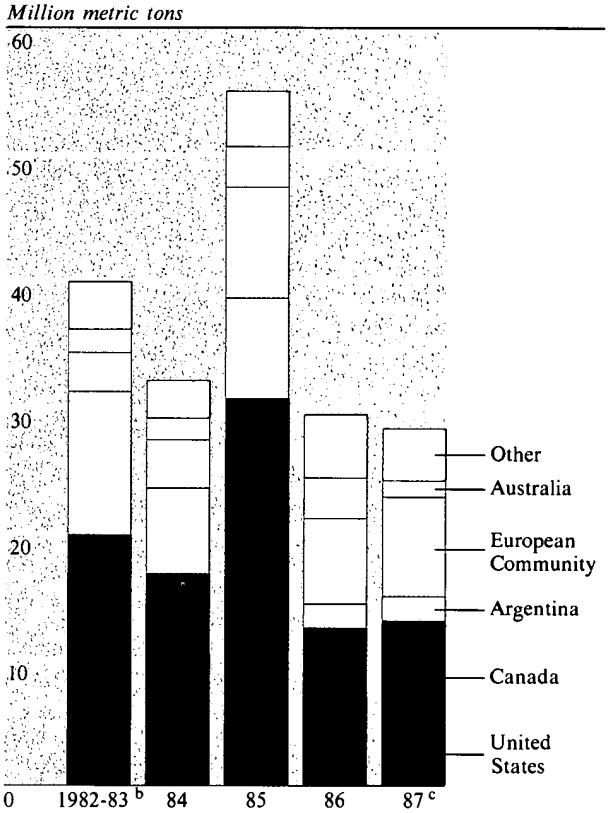
Figure 4
USSR: Grain Imports, 1982-87 [a]



[a] Data based on a marketing year ending in June. Includes wheat, barley, rye, corn, oats, and sorghum.

[b] Annual average.

[c] Preliminary.

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Moscow has also reduced its grain requirements in some other important areas where future trends are difficult to predict:

- Lower alcohol production in calendar year 1986 trimmed grain use by more than 500,000 tons; and, according to the 1987 midyear plan fulfillment report, the manufacture of "liquor, vodka, . . . beer" has continued to decline.

- The decision to reduce the area sown to grain in favor of fallow has resulted in a 2-MMT decline in the use of grain for seed.

- Lower grain exports cut grain needs by several hundred thousand tons, and this policy could continue. Soviet foreign trade statistics for calendar year 1986 indicate Moscow slashed grain exports roughly 20 percent, to an estimated 1.4 MMT, by stopping deliveries to Vietnam, Mongolia, and Poland, and by trimming exports to Cuba. The USSR traditionally has supplied several client states with Western grain purchases on Soviet account.

Our estimates of total grain supply and total grain usage also suggest that the USSR could have added as much as 30 MMT to stocks over the past five crop-years. Consequently, Moscow now has much more flexibility in managing its grain import program than in past years. Such flexibility makes it difficult to predict Soviet import needs very precisely even with good estimates of the grain crop and grain consumption needs. The extra cushion grain stocks provide could allow Moscow to postpone some imports and, instead, draw down stocks if prices or availability on the world market become unattractive. Even so, Moscow's strong traditional concern for insurance against crop disasters and protection from foreign economic leverage will limit the drawdown it would be willing to make to only a fraction of our stock estimate. On the other hand, favorable buying conditions this year could prompt Moscow to purchase additional grain—up to 10 MMT—over our basic estimate of its needs to increase stocks even further.

Besides being down in volume, the composition of Soviet imports may be somewhat altered this MY. Soviet need for imported high-quality wheat has been declining gradually, according to Soviet press reports; intensive technology and recent initiatives linking farm bonuses to production results are succeeding in stimulating higher output of milling-quality wheat. This year, however, late-season weather problems are seriously hurting grain quality. Consequently, the USSR may need to import more milling-quality wheat than earlier conditions indicated. Meanwhile, a significant reduction in the demand for imported coarse grains for the livestock sector is probable in the 1987/88 MY; preliminary indications point to a very large Soviet barley crop, a good corn crop, and a good forage outturn.[5]

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Grain Market Activity

The current world grain glut, with its accompanying low prices, has put the Soviets in a strong position in world grain markets. They can purchase needed grains from a variety of sources and choose the most favorable prices. In addition, by delaying buying, the Soviets can often "wait" for the price they want to pay. Despite government efforts in various countries to cut back grain production, the overall level of output for the five major exporters—the United States, the EC, Australia, Argentina, and Canada—is expected to remain relatively unchanged. Wheat stocks held by these countries total over 80 MMT, and coarse grain stocks are twice that amount—with the United States accounting for the majority. Further supplies will be added as this year's crops are harvested (figure 5). Reports of poor weather in the EC indicate that the size and quality of its wheat crop may be reduced, but US and Canadian suppliers have more than enough quality wheat to make up any shortfall. An increase in lower quality EC feed wheat would add to the glut of grain for the feed market.

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With the soft world market and relatively low import needs, Soviet grain buying slowed somewhat after a buying flurry at the end of the last MY in June 1987. Moscow reentered the

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[5] Coarse grains include corn, barley, oats, rye, sorghum, and millet.

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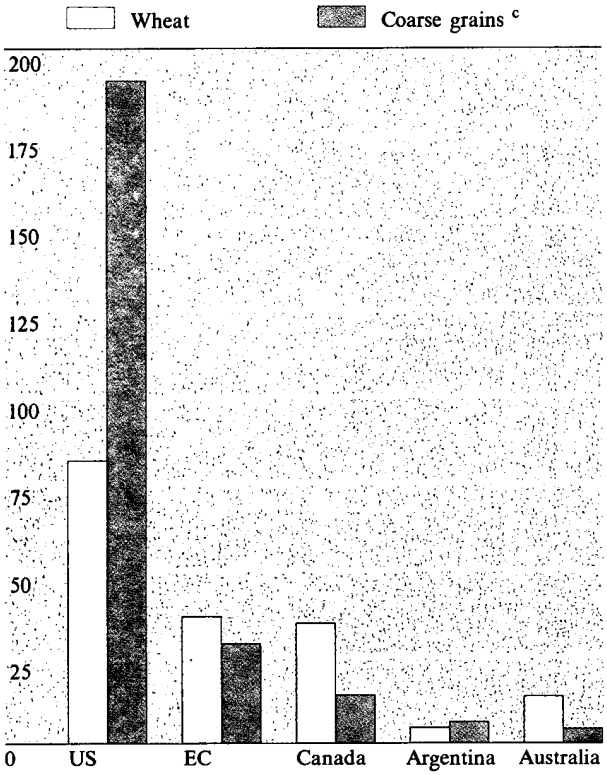
Figure 5
World Exportable Grain Supplies, [a] 1987/88 [b]

Million metric tons



[a] Food and Agriculture Organization estimates for major exporters; total includes beginning stocks, plus production and imports, less domestic consumption.

[b] Based on marketing year for individual countries.

[c] Includes barley, rye, corn, oats, and sorghum.

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grain market in mid-September to buy 3 MMT of Canadian spring wheat, 1.6 MMT of feed barley and wheat from the EC, and about 1.6 MMT of US corn.

Long-Term Grain Purchasing Agreements

In light of the growing competitiveness in world grain markets and improved domestic grain harvests, Moscow may be rethinking the necessity of long-term grain purchasing agreements (LTAs) or at least considering seeking more favorable terms in future agreements. Although Moscow accepted the US offer last May of 4 MMT of US wheat under the US Export Enhancement Program—which essentially provides government subsidies to enable US grain traders to meet world prices—and had earlier purchased 4.1 MMT of US corn as well as a small amount of soybeans, it still fell about 700,000 tons of grain shy of fulfilling its fourth-year LTA commitment.[6] This failure to pick up the remaining grain marked the third consecutive year Moscow did not satisfy the terms of its LTA with the United States.

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Similarly, after renewing a five-year grain pact with Argentina in 1986, the USSR failed to buy the required amounts last year and is also likely to fall short of its obligation in 1987. Upset about its large trade deficits with Argentina, Moscow recently informed the Argentines that it will link adherence to the LTA with Argentina's fulfillment of earlier pledges to purchase Soviet goods and services over the lifetime of the agreement.

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Implications

The current global grain glut means that the Soviet Union will continue to benefit from low world grain prices. If actual grain production is around our current estimate of 210 MMT, then Soviet hard currency outlays for grain during the current MY could be as much as $1 billion less than last year's estimated $2.5 billion. The USSR's low grain import needs suggest that Moscow could, if it so chooses, satisfy most of its import requirements from non-US sources.

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[6] The US-USSR LTA specifies that the USSR purchase 8 to 9 MMT of grain from the United States annually—4 MMT of wheat and 4 MMT of corn. The remaining 1 MMT commitment can be met with wheat or corn or with 500,000 tons of soybeans or soybean meal. The LTA year runs from 1 October to 30 September.

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Moscow's acceptance of the US offer last May of 4 MMT of heavily subsidized wheat indicates that price is still a major consideration for the USSR and the United States will again be the wheat supplier of last resort if US prices are not competitive.

A substantial increase in US corn sales to the USSR from the 4.1 MMT moved during the 1986/87 MY is unlikely this MY if Moscow continues to hold down imports of coarse grains as expected. The USSR recently made an effort to diversify its sources of coarse grains—primarily corn, barley, and oats—even though US prices for these grains have been fully competitive. Nevertheless, the United States is expected to continue to supply the major share of Moscow's corn needs because its corn crop is more reliable than that of other corn suppliers, it has much greater supplies on hand, and it can export year round.

If Moscow decides it wants to negotiate another LTA with the United States—the current agreement expires 30 September 1988—it may try to seek more flexible terms and to link future purchases of US grain to improved Soviet access to the US market. Moscow over the years has complained about its high trade deficits with the United States brought about by large Soviet purchases of US grain. The USSR has been trying to increase exports to the United States and feels that its efforts so far have been thwarted by US trade laws and regulations.

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